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Investment on the Rise  
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[1. \(U\)](#) Both foreign and domestic investment in Belgium rose strongly in 2006. Preliminary data show that domestic investment in fixed capital in Belgium rose 3.2 percent in 2006, after declining marginally in each of the past five years. Surveyed industrial firms expected final 2006 data would show a 17 percent increase in investment budgets; only automobile and textiles firms expected a net drop in their investments in Belgium. Prospects for 2007 are stronger still, with expectations of 19.6 percent growth in investment budgets among firms.

[2. \(U\)](#) Foreign direct investment (FDI) in Belgium in 2006 reflected the cresting global economic cycle, and rose also. With final data yet to be reported, financial analysts expect FDI to surpass easily the \$24 billion of 2005, perhaps reaching \$40 billion. Belgium's newly implemented notional interest deduction, effective January 1, 2007, is credited with attracting some of the foreign investment. The deduction effectively reduces a company's marginal tax rate from 34 percent to 26 percent on profits (detailed further ref A). Additions to US investment in Belgium came chiefly in the pharmaceutical and chemical sectors. Mohawk's purchase of a large Belgian flooring company, Unilin, for some 2 billion Euros skewed the figures for 2005-2006.

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Real Estate Deal Saves Federal Budget  
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[4. \(U\)](#) Another piece of good news for the Belgian government: the massive real estate sale/leaseback deal of government properties was finalized on December 22. This permitted the Belgian government to sell 63 government-held properties to a real estate property management company Befimmo in exchange for an immediate 575.6 million euro payment (US\$ 760

million). A previous effort to carry out this transaction was overturned by the Council of State (Belgium's Constitutional Court) on grounds it lacked transparency for other potential bidders. The final deal netted the government 10 million euro more than the previous bid procedure, yielding enough cash to tip the federal budget deficit, foreseen as 0.6 percent of GDP, into a positive balance (0.1 percent of GDP, or 200 million euros).

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Wage Increases Capped for 2007  
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¶3. (U) After weeks of fruitless discussion, at 5 am on December 21, labor union representatives and the Belgian Employers Federation, mediated by the federal government, reached agreement on the level of wage increases to be allowed in the coming two-year period, 5 percent in total. This is a notch below the previous agreement of 6.2 percent over the 2005-2006 period. Even if projected inflation remains modest at 2 percent annually, that will leave scarcely half a percent for real wage growth in each of the two coming years. Employers and government believe the agreement on modest wage growth is anti-inflationary, and will help maintain Belgium's competitiveness as an investment venue. The wage agreement will apply to most of Belgium's 2.4 million private sector employees.

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Another Banner Year for Belgian Stocks  
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¶5. (U) The Bel-20 stock index of Belgian stocks listed on the Euronext exchange in Brussels, Amsterdam and Madrid rose strongly in 2006. Over the past year the basket of

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representative stocks rose by 22.84 percent, beating out other exchanges such as London (FTSE up 11.47), Paris (CAC-40 up 17.5), and even Germany (22.2). Growth of the Bel-20 surpassed analysts' expectations, as had previous years gains of 30.7 percent in 2004 and 21 percent in 2005 (Ref B). A well-invested Belgian may have seen his or her portfolio rise by 75 percent in the past three years. The explanation for the strong performance of the Belgian market is (1) the recovery from the internet bubble collapse had been delayed in Belgium compared to other markets, and (2) the Bel-20 is a narrowly based index, where a few strong stocks made major contributions, such as Suez (which bought Electrabel and rose 44 percent in 2006), Inbev (rose 34 percent), food retailer Colruyt (rose 28 percent) and UCB Pharma (rose 37 percent).

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Belgian Population Growing  
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¶6. (U) Belgium is bucking the trend of many European countries towards declining population. The National Statistics Institute's official census recorded 10,511,382 Belgian inhabitants on January 1, 2006, 65,530 more than on January 1, 2005. Regional weights in terms of population: Flanders counted 6,078,600 people (57.8 percent of all Belgians), Wallonia 3,413,978 (32.5 percent), and Brussels 1,018,804 (9.7 percent). 870,862 foreigners were counted, down from almost 900,000 in 2000, mainly due to the "Quick Belgian law" (snel-Belgwet) that facilitated the naturalization of thousands of foreign-born residents. In Brussels, hub of the European Union, NATO and other international organizations, trade associations and corporations, 26% of the population is non-Belgian.

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Walloon Government Ups Investment in Aviation Parts Maker SONACA  
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¶7. (U) The Walloon regional government, already the major shareholder in Sonaca, has increased its investment. The company, known for aviation components such as wing front edges and fuselage panels for Airbus and Embraer, is undertaking a restructuring program to trim 63 million euros from its budget and cut 100 employees (to 1550) from its payroll. Wallonia will spend 20 million euros to acquire another 5 percent of the company, bringing regional government participation to 89 percent, and lowering the shares of Techspace Aero and SFI. Sonaca plans installation of new machinery to further automate production. Techspace was recently cited by the EU Competition Commission for receiving excessive Belgian government state aid. (ref C).  
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Food Retailer Celebrates Triple Anniversary  
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¶8. (U) In 2007, Belgian based Delhaize Group will mark 140 years of existence, 50 years of supermarkets in Belgium, and 50 years of Food Lion, its largest subsidiary in the U.S. The retailer is also expanding its presence in Belgium by opening 44 new stores, including 20 Tom & Co, stores that specialize in food and products for domestic animals. Delhaize already has a 40 percent market share in the pet sector. In 2005, the company acquired Antwerp-based Cash Fresh and is in the process of converting these into Delhaize outlets. Delhaize also has outlets in Luxembourg and Germany and will open in France in 2007. In 2005, Delhaize Group's net sales exceeded 18 billion euros, and net profit was 364 million euros. The United States looms large in Delhaize plans, currently accounting for 700 million in direct investment, a majority of profits, and 104,000 of its 136,000 worldwide employees.  
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Belgian Sax Appeal  
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¶9. (U) In an homage to Adolphe Sax, the inventor of the saxophone, over 1400 saxophonists gathered in Dinant on November for a giant concert on the musician's birthday. The event has taken place every four years since 1994 to honor Sax, who was born in Dinant, Wallonia, in 1814. Many of the performers came from abroad, dedicated to fostering awareness and love of their

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instrument. Who says Belgians don't have international sax appeal?

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